

Message Text

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ACTION EA-12

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DEPT PASS EXIMBANK

E.O.11652: N/A
TAGS: EFIN, ENRG, MY
SUBJECT: PRELIMINARY COMMITMENT REQUEST FOR SARAWAK LNG PROJECT

REF: STATE 141796

1. BECAUSE OF THE DELICATE NATURE OF GE AND SHELL'S POSITION ON THE NEGOTIATED SALE OF GE EQUIPMENT FOR THE BINTULU LNG PLANT, WE ARE HESITANT TO CONTACT PETRONAS FOR FURTHER INFORMATION THAN WE ALREADY HAVE ON THE PROJECT. THEREFORE, WE WILL BE RESPONDING TO REFTEL WITH INFO ALREADY AVAILABLE TO US. THE SEPTEMBER 1978 BID DATE MENTIONED IN REFTEL HAS NOW, REPORTEDLY, BEEN CHANGED TO JANUARY 1979 AS PETRONAS HAS FOUND THAT THIS WILL ALLOW THEM ENOUGH LEAD TIME TO ORDER THE EQUIPMENT REQUIRED AND STILL COMMENCE PRODUCTION IN JANUARY OF 1983. GE IS NOW AWARE OF THIS CHANGE.

2. IN OUR VIEW THERE IS LITTLE LIKELIHOOD THAT THE BORROWER OR THE GOM WOULD APPROACH EXIM DIRECTLY AS THEY HAVE MORE THAN ENOUGH POTENTIAL SOURCES OF CREDIT COMING TO THEM TELLING THEM HOW

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MUCH THEY ARE INTERESTED IN COLLABORATING ON THE PROJECT. IF EXIM CREDITS ARE TO BE USED ON THIS PROJECT, THEY WILL HAVE TO BE ARRANGED BY SUPPLIERS. THERE IS NO BIAS AGAINST US SUPPLIERS OR EXIM FINANCING ON THE PART OF THE GOM OR PETRONAS. CHIEF COMPETITION IS EXPECTED FROM THE JAPANESE WITH THE FRENCH ENTERING IN WITH CONCESSIONAL LOAN FACILITIES.

3. ON GE'S CHANCES OF NEGOTIATING A CONTRACT WITH SIPM, WE CAN ONLY COMMENT THAT GE DID IN FACT WIN THE CONTRACT IN 1974 AND SHELL DOES FEEL SOME COMMITMENT IN THROWING THE BUSINESS THEIR WAY. HOWEVER, ANY DECISION ON ANY CONTRACT MATTER WOULD HAVE TO BE CLEARED WITH PETRONAS FIRST.

4. AS PER THE TECHNICAL QUESTIONS RAISED IN PARA 6 OF REFTTEL, BELOW IS THE BEST INFO THAT THE EMBASSY CURRENTLY HAS AVAILABLE.

A. MALAYSIA GAS SENDIRIAN BERHAD (THE JOINT VENTURE COMPANY SET UP TO RUN THE OPERATION).

B. WE ASSUME THAT PETRONAS, AS THE LARGEST SINGLE SHAREHOLDING, WILL ACT AS THE GUARANTOR WITH THE GOM BACKING THEM UP.

C. NOT YET KNOWN, BUT WE DO NOT ANTICIPATE IT AS THERE ARE MORE THAN AMPLE POSSIBLE SOURCES OF FINANCING.

D. AS EARLIER MENTIONED, TENDERS FOR THE EQUIPMENT THAT GE IS INTERESTED IN WILL BE ISSUED IN JANUARY OF 1979. THE ENTIRE PROJECT IS SCHEDULED FOR COMPLETION IN JANUARY 1983.

E. NOT AVAILABLE.

F. SHELL HAS A PROJECTION MANAGEMENT POSITION AND MITSUBUSHI IS RESPONSIBLE FOR MARKETING OF THE LIMITED OFFICIAL USE

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LNG IN JAPAN. WE DO NOT HAVE ANY OTHER DETAILS.

G. SALE OF THE LNG WILL BE PRIMARILY TO JAPAN AND THE PRODUCT WILL BE HAULED ON THE FIVE LNG TANKERS PRESENTLY ON ORDER FROM THE FRENCH AND DUE TO START ARRIVING IN LATE 1979. THE TANKERS WILL BE OWNED BY THE MALAYSIAN INTERNATIONAL SHIPPING CORPORATION. PETRONAS HAS ALSO LOOKED INTO THE WEST COAST OF THE US AS A POTENTIAL MARKET AND HAS HELD PRELIMINARY TALKS WITH PACIFIC GAS.

H. WHILE WE DO NOT HAVE HARD INFO AT OUR DISPOSAL ON THE AMOUNT OF FEEDSTOCK AVAILABLE AT THE PROJECT SITE, WE HAVE BEEN INFORMED BY KNOWLEDGEABLE SOURCES THAT IT IS MORE THAN ADEQUATE FOR OVER THIRTY YEARS OF OPERATION OF THE PROJECT.

FYI: CREST ENGINEERING HAS ALREADY BEEN AWARDED THE DESIGN AND ENGINEERING CONTRACT FOR THE OFFSHORE COLLECTION OF THE GAS AND MAY HAVE THIS INFO AVAILABLE IN THE US.

I. PETRONAS IS THE MAJOR SHAREHOLDER WITH 65 PERCENT OF THE EQUITY. SHELL AND MITSUBUSHI EACH HAVE 17.5 PERCENT.

J. TOTAL COST OF APPROXIMATELY ONE BILLION US DOLLARS.

WE DO NOT HAVE A BREAKDOWN.

K. NOT AVAILABLE, BUT WE DO KNOW THAT ANNUAL PRODUCTION WILL BE 6.4 MILLION TONS OF LNG AND JAPANESE HAVE MADE A PRELIMINARY COMMITMENT TO PURCHASE THE ENTIRE AMOUNT.

L. WHILE FINANCING PROPOSALS MAY NOT BE REQUIRED WITH SUBMISSION OF BIDS ON THE PROJECT, WE ARE RELATIVELY SURE THAT FINANCING ARRANGEMENTS WILL BE PART OF ANY FINAL AWARDS OF CONTRACTS. FYI: THE GOVERNMENT OF MALAYSIA IS ENJOYING THE LOWEST COSTS OF CAPITAL IN HER HISTORY AT PRESENT HAVING JUST NEGOTIATED A COMMERCIAL LOAN AT FIVE-EIGHTHS OF A PERCENT OVER LIBOR.

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5. PLEASE ADVISE IF ANY FURTHER INFO IS REQUIRED.
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